

REPORT ON EXAMINATION
OF THE
INDEPENDENCE INSURANCE INC.
AS OF
DECEMBER 31, 2006

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

INDEPENDENCE INSURANCE, INC.

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

DATE: 11 FEBRUARY 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 11TH DAY OF FEBRUARY 2008.

Matthew Denn

Insurance Commissioner

REPORT ON EXAMINATION
OF THE
INDEPENDENCE INSURANCE, INC.
AS OF
December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", is positioned above a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 11TH Day of FEBRUARY 2008.

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November 17, 2007

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19901

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No. 07.039, an examination has been made of the affairs, financial condition and management of the

INDEPENDENCE INSURANCE INC.

hereinafter referred to as "I.I.I." or "Company", incorporated under the laws of the State of Delaware as a stock company with an administrative office located at 1901 Market Street, Philadelphia, Pa.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2003. This examination covers the subsequent period to December 31, 2006, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

HISTORY

I.I.I. was organized and incorporated as a stock insurance company under the laws of the State of Delaware on October 8, 1996. Since its organization, the Company's parent has been AmeriHealth Inc., in turn a subsidiary of Independence Blue Cross, of Philadelphia, PA.

To date, the Company has not written any insurance business and there are no plans to activate the Company.

HOLDING COMPANY SYSTEM

III is ultimately owned by Independence Blue Cross (IBC), a non-profit health service corporation that is the largest provider of health insurance in the Delaware Valley area consisting of the Southeastern Pennsylvania, Southern New Jersey and Northern Delaware. IBC reported the following at December 31, 2006:

Assets	\$4,148,742,000
Reserves (Surplus)	1,664,059,000
Underwriting Revenue for 2006	\$10,518,715,000
Net Income for 2006	210,860,000

The Company's immediate parent, AmeriHealth, Inc., is a wholly-owned subsidiary of IBC, and the ownership structure did not change during the period under examination.

On March 28, 2007, the Board of Directors of Independence Blue Cross and Highmark, Inc. voted to consolidate the two companies into one organization. This consolidation is currently being reviewed by the appropriate regulatory authorities.

MANAGEMENT AND CONTROL

By an action taken by the sole shareholder, AmeriHealth Inc., on April 20, 2006, the following members were elected to the Board of Directors:

<u>Director</u>	<u>Principal Occupation</u>
Christopher D. Butler	Executive Vice President and Chief Operating Officer-IBC
John A. Daddis	Senior Vice President –Subsidiary Operations-IBC
Joseph A. Frick	President and CEO-IBC
John G. Foos	Chief Financial Officer- IBC

As of December 31, 2006, the officers of III were:

<u>Name</u>	<u>Title</u>
Joseph A. Frick	Chairman, President and CEO
John G. Foos	Treasurer & CFO
Paul A. Tufano	Senior Vice President, General Counsel & Secretary

CORPORATE RECORDS

This examination noted two exceptions:

Section 1304 of the Delaware Insurance Code requires the Board of Directors to approve investment transactions. The Board of Directors met only once during the period under examination and investment transactions were not approved.

It is recommended the Company comply with 18 Del. C. § 1304 and have the Board of Directors approve investment transactions.

During the examination period, two directors and officers of the Company changed. No notification was made to the Delaware Insurance Department in accordance with 18 Del. C. § 4919.

It is recommended the Company comply with 18 Del. C. § 4919 and promptly notify the Delaware Insurance Department of changes in officers and directors.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the five preceding years:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Policyholder Surplus</u>	<u>Net Premiums Written</u>	<u>Net Income</u>
2002	\$ 1,942,885	\$ 1,666,496	\$-0-	\$ (162,193)
2003	1,701,032	1,625,062		(41,434)
2004	1,639,160	1,615,612		(9,450)
2005	1,650,432	1,623,194		7,582
2006	1,675,447	1,672,447		49,253

The Company is inactive. All income is derived from investments.

TERRITORY AND PLAN OF OPERATIONS

The Company's Certificate of Authority from the Delaware Insurance Department permits the writing of the following lines of business:

Life, including annuities; and Health.

Originally, it was the intention of IBC management to have the Company write health insurance in the British Virgin Islands (BVI). For several years, I.I.I. was licensed to write health insurance in the BVI but the Company never commenced operations. In December, 2003, the Company notified the Financial Services Commission in the BVI of the intention not to renew its license effective December 31, 2003.

The Company has never written any business. IBC management has indicated to the examination that there are no plans to activate the Company at the present time.

FINANCIAL STATEMENTS

The Company's financial position on December 31, 2006 and the results of operations for 2006 are presented in the following statements:

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Cash and short-term investments	\$1,674,806		\$1,674,806
Investment income due and accrued	<u>641</u>		<u>641</u>
Total Admitted Assets	<u>\$1,675,447</u>		<u>\$1,675,447</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Federal and foreign taxes	\$3,000
Total liabilities	<u>\$3,000</u>
Common capital stock	\$350,000
Gross paid in and contributed surplus	1,850,000
Unassigned funds (surplus)	<u>(527,553)</u>
Capital and Surplus	<u>\$1,672,447</u>
TOTALS	<u>\$1,675,447</u>

SUMMARY OF OPERATIONS

Premium and annuity considerations	\$ 0
Net investment income	<u>\$77,250</u>
Total	\$77,250

Insurance taxes, licenses & fees	<u>\$997</u>
Total	\$997

Net gain from operations	\$76,253
Federal income taxes incurred	<u>(27,000)</u>

Net Income	<u>\$49,253</u>
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CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, December 31, 2005	\$1,623,194
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Net Income	\$49,253
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Change in Capital and Surplus for the year	<u>\$49,253</u>
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Capital and Surplus, December 31, 2006	<u>\$1,672,447</u>
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SCHEDULE OF EXAMINATION ADJUSTMENTS

The examination will propose no financial adjustments.

STATUS OF PREVIOUS EXAMINATION RECOMMENDATIONS

The examination conducted as of December 31, 2003 contained the following recommendations:

- It is recommended the Company comply with its Bylaws and hold annual shareholder meetings.

The current examination noted compliance with this recommendation.

- It is recommended the Company comply with 18 Del. C.§1304 and have the Board of Directors approve investment transactions.

The current examination noted non-compliance with this recommendation and the recommendation is repeated in this report of examination.

RECOMMENDATIONS

The Company's attention is directed to the following:

It is recommended the Company comply with 18 Del. C. § 1304 and have the Board of Directors approve investment transactions. (See Corporate Records, Page 4)

It is recommended the Company comply with 18 Del. C. § 4919 and promptly notify the Delaware Insurance Department of changes in officers and directors. (See Corporate Records, Page 4)

SUMMARY COMMENTS

The following items of significance were noted during the examination:

- The Company's ultimate parent is Independence Blue Cross (IBC) of Philadelphia, Pa.
- On March 28, 2007, the Board of Directors of Independence Blue Cross and Highmark, Inc. voted to consolidate the two companies into one organization. This consolidation is currently being reviewed by the appropriate regulatory authorities.
- I.I.I. has never commenced operations and IBC management has indicated to the examination there are no plans to activate the Company.

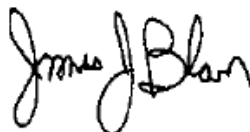
CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>Current Examination</u>	<u>2003 Examination</u>	<u>Changes Increases (Decreases)</u>
Assets	<u>\$1,675,447</u>	<u>\$1,701,032</u>	<u>\$ (25,585)</u>
Liabilities	\$ 3,000	\$ 75,970	\$ (72,970)
Capital and Surplus	<u>\$ 1,672,447</u>	<u>\$1,625,062</u>	<u>\$ 47,385</u>
Totals	<u>\$1,675,447</u>	<u>\$1,701,032</u>	<u>\$(25,585)</u>

The examination was conducted by the undersigned.

Respectfully submitted,



James J. Blair Jr., CPA, CFE
Examination Supervisor
Insurance Department
State of Delaware